Government-Sponsored Reinsurance and Increasing Access to Health Insurance

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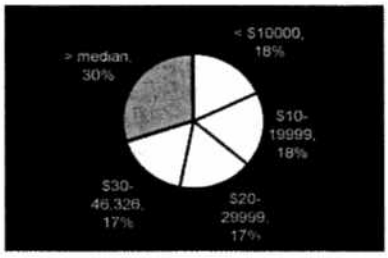
Presentation

- Changes in who lacks health insurance and why—new pressures on private health insurance
- How health insurance markets work and insurers compete
- Why a government sponsored reinsurance program could help increase access

Who Lacks Health Insurance?

- 46.6 million Americans in 2005. This is 1.3 million more than in 2004, almost all of whom lost employer-based coverage.
- 30% had middle-class incomes.
- 58% are 19 to 44 years of age.

Income of Uninsured—2005



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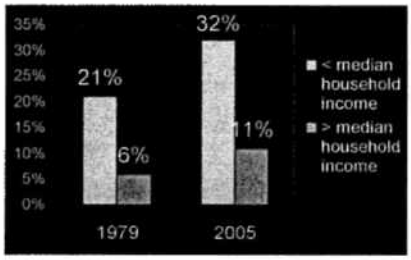
Probability of Being Uninsured by Middle Class Income for Adults—1979 and 2005



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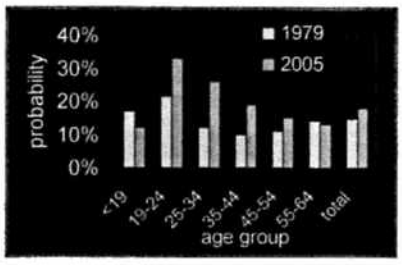
Probability of Being Uninsured by Age 1979-2005



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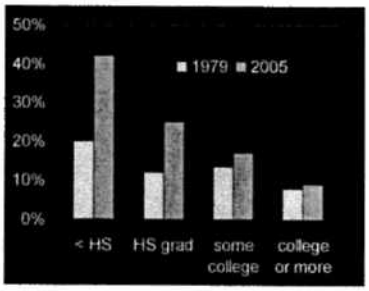
Adults' Probability of Being Uninsured by Education—1979-2005



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Changes in Economy

- Manufacturing to service jobs—manufacturing dropped from 22% of all jobs in 1979 to 10.5% today
- % of private sector workers in firms with <50 employees increased from 37% to 44% between 1979 and 2005
- Changes in employer-employee relationships—cost of health care an incentive

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Rising Costs of Health Care

- More alternatives for treating illnesses and conditions now compared to 25 years ago
- Per capita healthcare expenditures rose from $2,612 in 1980 to $6,697 in 2005 (both in 2005 dollars)
- Provide an incentive to use more temporary and contract workers

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Implications

- Lack of insurance among middle-class and younger adults—pressures on policymakers
- Employers, large and small, want to limit their healthcare costs
- Increased interest in public programs that support private insurance markets and expand access

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Issues in Small Group and Individual Markets: Affordability and Availability

- Higher premiums per person ($200/month - > $1,000/month)
- Denials of coverage or exclusions for services

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Higher Premiums in Small Group and Individual Markets

- Premium = expected costs + loading fee
- Loading fee = administrative, marketing costs + payment for bearing risk
- Economies of scale in administrative and marketing activities → cheaper in large groups

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Risk in Insurance

- Risk that spending could be higher than predicted
- Risk of adverse selection
- This second risk is what concerns insurers → disproportionate number of people with extremely high costs among their own enrollees

Forms of Competition

- **Market segmentation**
  - Companies specialize
- **Selection mechanisms**
  - Medical underwriting
  - Refusal to issue a policy
  - Exclusion of coverage for pre-existing conditions
  - Many policies with different covered benefits

Efforts to Address Risk in Individual and Small Group Markets

- Require everyone to enroll—reduce adverse selection
- Compensate insurers for covering people with extremely high costs—keep insurers in market
- Shift burden of extremely-high-costs from insurers' enrollees to broad population base—reducing premiums

Ways to Compensate Insurers for Very-High-Cost Enrollees

- High-risk pools
- Assessments on insurers—redistribute/share the costs of high-cost people
- Government-sponsored reinsurance—broad tax-base shares the costs and subsidizes premiums

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Reinsurance Basics

- Insurance for insurers
- Sold as layers of coverage
- Cost-sharing between reinsurer and originating insurer → originating insurer retains portion of risk
- 2 types of reinsurance
  - Aggregate loss (book of business)
  - Excess-of-loss (individual)

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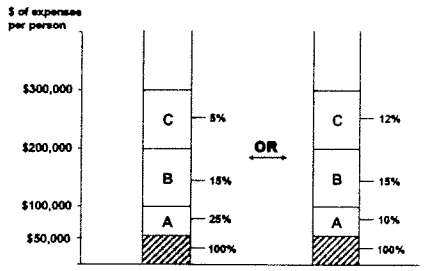
Risk Sharing by Layers of Reinsurance: % of Risk Retained by Insurer



Why Excess-of-Loss Design?

- Objective is to reduce insurers' risk of individuals with very-high-costs and thereby reduce premiums
- Aligns incentives for insurers to manage individuals' medical care
- Aggregate-loss reinsurance does not do either

Government as Reinsurer for Very-High-Cost People

- Less incentive for insurers to risk select since ex post determination of who is very-high-cost
- Broader population base pays for costs of very-high-cost people
- Incentive for management of care of high-cost people
- Premiums decline → implicit subsidy

What Determines Cost?

- Number of potential enrollees
- Threshold and range of expenses to be covered – layers of coverage – and where the range is in distribution of medical costs
- % of risk (costs) retained by originating insurer in layers
- Relevant medical expenses

Which Markets to Include?

- Small group and individual markets – not large group
- Goal is to address insurers' concerns with potential for adverse selection → want them to reduce use of selection mechanisms and lower premiums

Estimates of Costs

- Estimates at the national level run from $5B to $20B for the small group and individual markets with $50,000 threshold
- Compare with tax treatment of ESI: tax subsidy of $1,000-$1,200 per person

Financing Mechanisms

- Goal is to reduce insurers' concerns about adverse selection and expand coverage
- Need new funds – not fees or taxes on insurers
- Broad tax base desired – extremely high medical costs are due to random events

Reinsurance Is One Part of Policy Package to Reduce Uninsured

- Will reduce premiums and will increase availability of insurance for people now turned down – but not a panacea for all uninsured
- Need other subsidies for low-income workers so their coverage increases

Lessons from New York

- Healthy New York has reduced premiums relative to direct-pay market by more than 50%
- > 120,000 enrollees currently
- Stop loss pool not exhausted in 2003 or 2004

Other States

- 20+ considering reinsurance
- Massachusetts has reinsurance as a back-up to merger of small group and individual markets
- Vermont has reinsurance
- Expectation is that premiums would be reduced by 10-30% depending on design parameters chosen

States' Actions

- Joint ownership of the problem—employers, healthcare providers, state
- Willingness to require people to purchase coverage
- Efforts to set terms of basic benefits and define what is affordable
- Reinsurance for very-high-cost people

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Bottom Line

- Need for small group and individual market insurance never been greater – and is growing, especially among adults younger than 45
- Need to address insurers' concern with adverse selection in these markets
- Gov't sponsored reinsurance could do this – and stabilize markets by lowering premiums, bringing in healthy adults

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